

WORLD BANK RESPONSE TO THE TSUNAMI DISASTER

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ABBREVIATIONS AND ACRONYMS

ARN	Authority for Rebuilding the Nation (Sri Lanka)
AsDB	Asian Development Bank
ASEAN	Association of South-East Asian Nations
CAS	Country Assistance Strategy
CDIRAP	Comprehensive Development and Infrastructure Action Plan (Sri Lanka)
CGI	Consultative Group Indonesia
EDA	Economic development agency
FMTAAS	Funding Mechanism for Technical Assistance and Advisory Services (IFC)
FY	Fiscal year
GDP	Gross domestic product
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
IPI	Investment promotion intermediary
JBIC	Japan Bank for International Cooperation
JSDF	Japan Social Development Fund
LICUS	Low-Income Country Under Stress
MDTF	Multi-Donor Trust Fund
MIGA	Multilateral Investment Guarantee Agency
NGO	Nongovernmental organization
OPCS	Operations Policy and Country Services Vice Presidency
PPP	Public-private partnerships
PRI	Political risk insurance
PRS	Poverty reduction strategy
SME	Small and medium enterprise
TA	Technical assistance
TAFREN	Task Force to Rebuild the Nation (Sri Lanka)
UN	United Nations
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
USAID	United States Agency for International Development
WFP	World Food Programme (United Nations)

WORLD BANK RESPONSE TO THE TSUNAMI DISASTER

CONTENTS

Executive Summary	i
I. Background.....	1
II. Country Damage Assessments	2
A. Indonesia	2
B. Sri Lanka.....	4
C. India.....	5
D. Maldives.....	6
E. Africa	7
III. Bank Response.....	8
A. Common Issues	9
B. Indonesia.....	9
C. Sri Lanka.....	12
D. India.....	14
E. Maldives.....	15
F. Africa	16
G. IFC and MIGA Support.....	18
IV. Operational Issues.....	18
A. Emergency Procedures.....	18
B. Administrative Budget and Staffing.....	19
V. Proposed Financing Arrangements.....	19
VI. Next Steps.....	22
Tables	
Table 1. Human Cost.....	1
Table 2. Total Funds Pledged for Tsunami Relief.....	2
Table 3. Estimated Losses.....	2
Table 4. Key Economic Indicators - Sri Lanka.....	4
Table 5. Key Economic Indicators - Maldives.....	7
Table 6. Sri Lanka - Short-Term Financing Reconstruction and Rehabilitation Needs	13
Table 7. Proposed IDA/IBRD Support in 2005	21
Annexes	
Annex A. IFC Support for Post-Tsunami Relief and Recovery.....	23
Annex B. MIGA Role in Post-Tsunami-Recovery.....	25

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EXECUTIVE SUMMARY

1. The tsunami disaster in the Indian Ocean is one of the worst natural disasters in modern times. Well over 200,000 people died and more than 1.5 million people lost their homes and often their livelihoods. Losses are estimated to total more than US\$7 billion. Private assets, including housing and business equipment, account for the largest share of the losses. In the largest countries, the impact on GDP is likely to be minimal, but the damage in the affected areas is extreme. As reported below, poor people were disproportionately affected. However, the countries that suffered the disaster have already responded decisively.

2. **Country Leadership.** Except for Somalia, in all cases governments have provided the leadership in the aftermath of the disaster. They have effectively drawn on the support of United Nations (UN) agencies and bilateral donors for short-term disaster relief. These efforts have been successful in providing emergency food, shelter, and medical supplies to most of the survivors and averting widespread hunger or disease. While continuing these relief efforts—hundreds of thousands of people continue to live in temporary housing and are dependent on food assistance—governments quickly moved to the first phases of recovery. Most have looked to the World Bank for substantial support in this process.

3. **Financial Assistance.** There has been an unprecedented outpouring of support for the affected regions. The UN has documented US\$5.3 billion in commitments from public sources. Donations from private citizens have also been unprecedented; recent estimates put private contributions at US\$1 billion to US\$2 billion. (World Bank staff alone contributed more than US\$650,000 to private charities in just a few days.) Consistent with their mandates, UN agencies took the lead in multilateral support for relief efforts. In a first phase of support, the World Bank stands ready in the coming months to provide financing, essentially through IDA, on the order of US\$246 million for Indonesia, US\$14 million for Maldives, and US\$150 million for Sri Lanka, drawing on IDA13. (Table 7 provides information on this first phase of support, along with *indicative* numbers for the next phase.) The level of support for India will be determined after the outcome of the joint Government of India-World Bank-Asian Development Bank-United Nations Development Programme needs assessment that began on February 1.

4. **World Bank Response.** The disaster brought out the best in World Bank staff and demonstrated the effectiveness of decentralization. The Bank moved quickly to (a) provide assistance on the ground in affected countries for expedited recovery planning; (b) mobilize its financial support; and (c) help coordinate rehabilitation and recovery support, when asked to do so by the authorities in the affected countries. As noted below, the staff in country offices stepped in to work side-by-side with government counterparts and other partners, notably the Asian Development Bank, in mounting damage, loss, and needs assessments. In the case of Maldives, the Bank quickly established a country presence, which it will maintain during the urgent recovery phase. The Bank was able to use its comparative advantage—in-house expertise on recovery and reconstruction, knowledge of the overall economies of these countries, sectoral knowledge from operations and analytic work, procurement and financial management skills, and experience with donor coordination and reconstruction financing—in assisting

countries in formulating their recovery plans. In Somalia and the Seychelles, where the Bank does not have active programs, Regional staff were able to provide assistance to the lead support agencies and identify financing options outside of Bank operations. Disaster mitigation will be an element of Bank support, but other international organizations will take the lead initially.

5. ***Principles of World Bank Support.*** Three principles have guided Bank support for tsunami recovery efforts. First, the governments of the affected countries must have the central role and ownership of the recovery efforts. Second, communities should be involved in assessing their needs and designing recovery programs, linked to long-term strategies for growth and poverty reduction. It is important that reconstruction be undertaken in ways that help to break the cycle of poverty in these communities. Third, the international community must act in coordination, both in the relief and the recovery phases, to ensure efficient use of donor resources, and work with the governments of affected countries to set clear goals and monitor and evaluate progress.

6. ***Bank Grants.*** A separate proposal is under preparation that would recommend that the World Bank on an exceptional basis provide US\$27.5 million to Trust Funds for India and Indonesia, proportional to the magnitude of the disaster in each country. Because of their blend status, these countries are not eligible for grants under the IDA13 emergency provisions. These grants are justified by the extraordinary magnitude of the disaster, the poverty of the affected areas, and the possibility of using these funds to mobilize grant funds from other donors.

7. ***Next Steps.*** As the needs assessments are completed, the World Bank will finalize work on emergency reconstruction credits and grants for the most affected countries that have asked for assistance: India, Indonesia, Maldives, and Sri Lanka. The Bank will continue to support partners in providing assistance to Seychelles and Somalia, using relatively small scale non-operational grant funding. Governments will update the reconstruction cost estimates as emergency operations are prepared. These operations will come to the Board for discussion, beginning in late February. The first operations to come are likely to be those involving restructuring of existing projects. The discussions of these operations will provide an opportunity for Executive Directors to review reconstruction estimates and plans, their implementation, and the scale of World Bank support. We expect to report back to the Board on the overall reconstruction efforts in about three months. Beyond the immediate relief efforts, it is clear that a concerted World Bank Group-wide effort, also involving IFC and MIGA, will be necessary to meet the broader reconstruction needs of the affected countries.

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I. BACKGROUND

1. On December 26, 2004, at 7:58 a.m. local time in Indonesia, an earthquake of magnitude 9.0 on the Richter Scale—more precisely categorized as a megathrust earthquake—occurred in the Indian Ocean near the west coast of northern Sumatra, along a fault line where the Indo-Australian tectonic plate subducts the Burmese microplate. This earthquake, the fourth largest in the world since 1900 and the largest in 40 years, led to a 10-meter displacement of the seabed, which triggered large tsunamis that surged with catastrophic force against at least 12 countries, reaching as far as the Horn of Africa. In little more than one hour, tsunamis struck the western coastline of Thailand; two hours later Sri Lanka and the east coast of India were hit; and a surge swelled over the low-lying Maldives a short time later. Several hours later, a tsunami reached the African coast, causing further loss of life and damage, notably in Somalia and the Seychelles.

2. *Update on Casualties and Displacements.* It is likely that the world will never know exactly how many people died as a result of the tsunamis. The death toll now is well over 200,000 people, with another 1.5 million people displaced (see Table 1). By far the largest number of deaths occurred in Indonesia, because of its proximity to the earthquake, followed by Sri Lanka. To date, emergency relief efforts appear to have reached a large majority of the survivors in all affected countries with the necessary food, water, and medical supplies to avert famine, the spread of disease, and further major loss of life. However, the damage has been substantial, and hundreds of thousands of people continue to live in temporary shelters and to be dependent on emergency assistance. Now the process of recovery and reconstruction begins.

Table 1. Human Cost

	<i>India^a</i>	<i>Indonesia^b</i>	<i>Maldives^c</i>	<i>Sri Lanka^c</i>	<i>Somalia^d</i>	<i>Seychelles^e</i>
Loss of Life	10,479	108,240	83	30,956	150	3
Still Missing	5,640	127,773	25	5,637		
Injuries	6,913		1,300	15,196		
Displaced	647,599	426,849	21,633	408,407	5,000	40

^a Figures provided by Government of India, Ministry of Home Affairs, 1/18/05.

^b BAKORNAS (31/01/05)

^c Figures for loss of life and missing provided by Maldives National Disaster Management Center, 1/18/05; displaced figure provided by UNOCHA, 1/20/05.

^d Figures provided by UNOCHA, 1/14/05.

^e Figure for loss of life provided by UNOCHA, 1/14/05; displaced figure provided by UN/Seychelles and USAID, 1/12/05.

Note: These figures relate to countries that have to date sought World Bank assistance; other countries have also suffered, such as Thailand, which anticipates loss of human life in excess of 8,000 people, and Myanmar.

3. *Worldwide Financial Support.* Worldwide support for the victims of the tsunami has been overwhelming. The United Nations puts public-source commitments of assistance (not including the World Bank and Asian Development Bank) at about US\$5.3 billion (see Table 2). Private donations are estimated at US\$1 billion to US\$2 billion. The United Nations Flash Appeal in Geneva in January raised more than \$700 million for UN agencies for relief

and early recovery efforts. This level of potentially available assistance makes donor coordination crucial, and the Bank has been asked by most affected countries to help in this regard.

Table 2. Total Funds Pledged for Tsunami Relief (US\$, millions)

Bilaterals	4,505
UN Agencies	139
European Commission	616
National Red Cross/Red Crescent	27
Other	11
Total	5,299

Note: These figures do not include World Bank or Asian Development Bank contributions.

Source: United Nations.

II. COUNTRY DAMAGE ASSESSMENTS

4. The summaries below cover mainly the countries that have asked for IDA support in reconstruction and recovery efforts. They do not cover, for example, Thailand, which also suffered major loss of life and destruction to property, or Malaysia and Myanmar, which suffered more minor losses but are not seeking substantial support from the World Bank or other donors (see Table 3).

Table 3. Estimated Losses (US\$, millions)

	<i>Indonesia</i>	<i>Maldives</i>	<i>Sri Lanka</i>
Public Assets	990	120-260	300
Private Assets	3,460	190-250	670-700
Total	4,450	310-510	970-1,000

Note: Because of differences in methodologies, the totals are not strictly comparable.

A. Indonesia

5. Indonesia was the country worst hit by the catastrophic earthquake and tsunami. The brunt of the devastation affected two districts in North Sumatra province, and in particular the northern and western coastal communities of Banda Aceh province.¹ Colossal localized social and livelihood considerations, rather than national economic ramifications, represent the major impact of this disaster.

6. ***Disproportionate Impact on the Poor.*** Aceh, involved in a protracted internal conflict, is one of Indonesia's smaller and more remote provinces, and it has a high poverty incidence. Pre-tsunami, it had 2 percent of Indonesia's total population; an 11.2 percent rate of unemployment (vs. a national average of 9.5 percent); a poverty headcount of 28.5 percent (against a national headcount of 16 percent); and it accounted for just 2.3 percent of total GDP in 2003—and much less of employment-sustaining non-oil and gas GDP, at 1.4 percent.

¹ Large parts of Banda Aceh, Meulaboh, the coast of Aceh Besar, Aceh Jaya, Nagan Raya, Simeuleue, Aceh Utara, and Aceh Timor, along with eight regions in Nias and North Sumatra, were destroyed.

As a result of the disaster, the Ministry of Health estimates casualties to be 108,240 (there are differing estimates put forward by other sources); and hundred of thousands more are missing or have been left dislocated and destitute. To recover from this disaster, Aceh and North Sumatra will need significant help from the Government, its fellow citizens, and the rest of the world. The disaster has impacted the lives and livelihoods of communities mostly through its overwhelming destruction of homes, communities, and, in some cases, whole villages.

7. *Estimated Damage and Losses.* The total estimate of damages and losses is Rp. 41.4 trillion, or US\$4.45 billion. Of the total, 66 percent constitutes damages, while 34 percent represents income flows lost to the economy. The damage provides both an idea of the destruction of assets as well as a baseline for defining the program of reconstruction. The amount of losses will directly impinge on the future economic performance of the tsunami-affected areas. The disaster primarily impacted private, not public, assets and revenues. Some 78 percent of total damages and losses accrued to the private sector, including households, with the remainder borne by the public sector. This has important implications and poses particular challenges for the reconstruction strategy. The massive human toll and the preponderant brunt of the disaster to the private sector translates into lost or severely impacted livelihoods. The sectors most impacted are housing, commerce, agriculture, fisheries, and transport vehicles and services (US\$2.8 billion, or 63 percent of total damage and losses). The biggest public sector damages were to infrastructure, the social sectors, and government administration (US\$1.1 billion, or 25 percent of total damage and losses). Monetized environmental damages are also significant (US\$0.55 billion, or 12 percent of total damage and losses). These include damage to coral reefs and mangrove swamps, loss of land use, and needed restoration of the coastal zone.

8. *Impact on GDP, Inflation, Balance of Payments, and Fiscal Position.* The impact of the disaster is extensive on the economy in the affected areas, but likely to be very limited on the economy as a whole: total damages and losses (both stock and flow) are estimated at 97 percent of Aceh's GDP. Of this total, non-environmental GDP losses (to livelihood) would be US\$1.13 billion or 23.5 percent of Aceh's estimated 2004 GDP. These losses are spread over several years but front-loaded in 2005. Thus Aceh's losses in 2005 are likely to be 10 percent of GDP or more. By contrast, the reduction in the growth rate of Indonesia's overall GDP is estimated to be only 0.1 to 0.2 percentage points. The World Bank's pre-tsunami estimate of Indonesian growth rate in 2005 was 5.4 percent. With this magnitude of impact, post-tsunami growth would be around 5.2 to 5.3 percent. It is noteworthy that there was very little damage to the oil and gas fields. While important for Indonesia as a whole, this does little to mitigate the devastating economic (and social) impact on the Acehnese people. Most people earn their livelihoods agriculture, fisheries, and commerce, which account for 40 percent of GDP. Finally, relief and reconstruction spending and activities will have an offsetting impact. These impacts, including on the regional economy and the national budget and balance of payments, will be factored into subsequent assessments.

B. Sri Lanka

9. Preliminary estimates of total direct asset damages place losses in Sri Lanka around US\$1 billion (4.5 percent of GDP). Destruction of private assets in the affected districts is substantial, with losses estimated at about US\$700 million. This figure includes infrastructure and equipment losses in the fishing (US\$97 million) and tourism (US\$250 million) industries. More than 15,000 private fishing vessels were damaged, and about one-quarter of hotels were affected (58 of the total 242 registered hotels have been fully or partly damaged). Almost 145,000 houses were fully or partly destroyed, with estimated losses between US\$306 million and US\$344 million. In the public sector at least 97 healthcare institutions and 190 schools, universities, and vocational training institutes were damaged.

10. **Poverty.** While the most affected provinces together account for about 17.4 percent of GDP, they constitute a significantly larger portion of the population (26 percent). Available poverty data for districts in the southern provinces show that between one-quarter to one-third of the population lives below the poverty line.² The tsunami disaster increases the vulnerability of this already poor and vulnerable segment of the population.

11. **Impact on GDP.** The estimated loss of output in the most affected sectors (fishing and tourism) totals around 1.5-2.0 percent of GDP, but these sectors do not make up a significant portion of national GDP. Together the tourism (4 percent of GDP) and fishing (2.2 percent of GDP) industries make up about 6.2 percent of national GDP. Increased activity in the construction sector, which makes up a larger portion of GDP (7.2 percent), will mitigate part of the contraction in the fishing and tourism industries. Therefore, the tsunami may only result in slowing down economic growth by one percentage point in 2005 (from 6 to 5 percent) and less in subsequent years. (See Table 4.)

Table 4. Key Economic Indicators - Sri Lanka

	2004	<i>Pre-Tsunami</i>		<i>Post-Tsunami</i>	
		2005	2006	2005	2006
GDP Growth (percent)	5.2	6.0	6.0	5.0	6.0
Inflation (CCPI annual average; percent)	7.6	10-11	10.0	12.0	8.0
Fiscal Balance (% GDP)	-8.1	-7.6	-6.7	-9.6	-9.3
Revenues (% GDP)	15.6	17.2	17.9	16.9	17.8
Expenditures (% GDP)	23.7	24.8	24.7	26.4	27.1
Current Account Balance (% GDP)	-3.2	-3.8	-3.5	-7.1	-6.3
Debt Service to GDP (percent, before any debt moratorium)	4.4	4.6	4.6		

12. **Inflation.** Average inflation has been moderating in the last three years from a high of 14.2 percent in 2001, bottoming in 2003 at 6.3 percent, and increasing slightly to 7.6 percent in 2004. The tsunami is likely to push prices up further in 2005—because of the upsurge in

² Data on the incidence of poverty in the North-East is not available.

demand for consumption goods during the first quarter of the year and increased demand for construction materials—exacerbated by the recent hike in international oil prices. Inflation in 2005 is likely to average 12 percent, compared to the pre-tsunami estimate of 10-11 percent.

13. *Balance of Payments.* Reconstruction efforts following the tsunami will have a significant impact on the country's balance of payments. Rebuilding activities will require a substantial increase in imports (over US\$600 million) and a widening in the trade deficit, starting in 2005. Increased private transfers will contribute to financing increased imports. Merchandise exports are assumed to grow at the expected pre-tsunami rate (9 percent), but services receipts will decline by US\$65 million, reflecting a drop in tourist arrivals on the order of 100,000 relative to original projections for 2005 (600,000). Additional external financing requirements after the tsunami are estimated at US\$519 million. The receipt of large foreign inflows is expected to help mitigate the impact of the tsunami disaster on the external sector and ease pressure on the exchange rate.

14. *Fiscal Impact.* Measures of the fiscal impact of the tsunami on Sri Lankan Government finances are highly tentative at this point. The impact of the tsunami on revenues is expected to be marginal (0.3 percent of GDP). Revenues from the value added tax and customs duty on higher imports in 2005 are expected to compensate for most of the revenue shortfalls from tourism and fisheries. Additional tsunami-related expenditures are estimated at Rs.50 billion (over 2.2 percent of GDP). Of this amount, Rs.10 billion will be additional recurrent cost and the rest will go to capital. These changes will result in the widening of the fiscal deficit from the budgeted 7.6 percent of GDP to 9.5-10 percent of GDP in 2005. Ultimately, the level of increased expenditures will depend on the ability of the Government to mobilize external resources and the absorptive capacity of the public administration. Unlike asset losses and short-term output losses, substantial fiscal costs for reconstruction will continue to be incurred in the medium term. However, details on the Government's longer-term tsunami reconstruction and recovery program are not now available.

C. India

15. The tsunami generated enormous human suffering and considerable localized loss of assets in both the public and household sectors, and widespread loss of livelihoods, especially from fishing, in the affected areas. It is clear that, in addition to public infrastructure, the main losses of assets are of housing and fishing vessels, and that a large share of asset-loss has been borne directly by poor people. Hardest hit are the Andaman and Nicobar Islands, located not far from the earthquake's epicenter, and the central part of the coast of the state of Tamil Nadu (including Karaikal, a part of the Union Territory of Pondicherry). The states of Kerala and Andhra Pradesh have also been similarly affected, albeit on a considerably lower scale.

16. *Cost Estimates for Reconstruction.* Since the need assessment in India began on February 1, detailed estimates of reconstruction costs are not yet available. The Government of India has come up with a rough preliminary estimate of US\$1.5 billion; however, this figure does not include the Andaman and Nicobar Islands. While in the affected areas, the loss of incomes has been severe, the overall macroeconomic impact of the tsunami on India'

sizeable economy is thought to be marginal. The industrial base is intact. Preliminary estimates of the extent of the impact of the tsunami on India's current-year growth rate are no more than 0.2 percent of GDP.

17. **Poverty.** The short-term impact on poverty is negligible in national terms but is clearly substantial in the affected localities, where the poor were disproportionately affected. As elsewhere, there have also been large impacts in terms of disability and of psychological trauma. The Government has made clear that it sees reconstruction as an opportunity to improve living conditions and incomes of the affected populations, compared to those prevailing before the tsunami, and that this will be a central feature of the reconstruction effort.

D. Maldives

18. The tsunami of December 2004 is the worst natural disaster experienced by Maldives in recent history, resulting in major economic, social, and environmental impacts across more than 1,119 islands that comprise the country. Of the 200 inhabited islands, 13 were totally destroyed, 56 suffered major damage, and 121 experienced moderate damage. Over one-third of the total population of 280,000 was directly affected. The disaster hit Maldives at a moment when it has been growing rapidly, reflecting strong performance in tourism, fisheries, and construction sectors, and generally sound macroeconomic management.

19. **Overall Economic Losses.** Direct losses due to the disaster are estimated in the range of US\$310 million-US\$510 million, on the order of 50 to 80 percent of GDP. Of this, US\$228 million corresponds to physical or direct costs.³ The housing and tourism sectors suffered the most direct damage, but fisheries and water and sanitation facilities also suffered. The tourism sector is the largest source of indirect losses because of a sharp drop in tourist arrivals. Although most of the 89 resorts are operational, tourism has fallen by 80 percent. If prolonged, this could have a major impact on employment and government revenue. Before the disaster, the tourism industry generated well over 25,000 jobs (the hotel sector alone was responsible for 17,000 jobs) and contributed 31 percent of GDP directly and an estimated 60 to 70 percent when indirect effects are considered. In addition, about 30 percent of Government revenue came from resort lease payments and taxes on tourists. Tourism and fisheries together accounted for 40 percent of GDP and over one-third of total employment. The tsunami may result in a 20 to 30 percent contraction in the tourist sector in 2005. Fish landings could decline by 7 to 8 percent. Expansion of government services and construction may offset these contractions, but marginally at best.

20. **Poverty and Social Impact.** The social fabric of the affected islands has been seriously impacted by the displacement of people, extensive physical damage, and by the loss of livelihoods. Over 12,000 people have been displaced by the disaster. Of these, 41 percent had to move to other islands while the rest remained displaced on their original islands. Close to 5,000 houses will need to be rebuilt or will require major repairs. Employment has been adversely impacted by the current low tourism occupancy rates and the loss of fishing

³ This figure does not include the costs of future mitigation measures such as the safe island strategy initiated by the Maldives Government in response to the tsunami and to concern with the impact of climate change.

vessels, equipment, and agricultural lands. The delivery of social services has also been affected, an important problem because poverty in Maldives is associated with isolation and limited access to social services. The country has made significant progress in human development, but poverty and vulnerability persist, particularly among the 74 percent of the population living on the outer atolls. Although survey data are still being analyzed, it appears that poverty declined significantly between 1998 and 2003 because of strong economic growth and concerted government efforts to expand the provision of public services to the whole population.

21. Macroeconomic Impact. The macroeconomic impact of the tsunami will be substantial and proportionally greater than in the other affected countries, although magnitudes are difficult to estimate with certainty at the moment. The magnitude of this impact will become evident in the next 6 to 12 months; and it will depend on tourism sector recovery, the pace of reconstruction and the related availability of external financing, and macroeconomic and fiscal management in the face of unforeseen expenditures and revenue losses. The worse case scenario would be negative growth for the first time in over two decades, an acceleration in consumer prices to over 8 percent, a substantially larger current account deficit, a fall in reserves, and a significant widening of the fiscal deficit to about 10 percent (see Table 5). This would be a dramatic contrast with 2004 when, fueled by tourism, GDP growth reached an estimated 9 percent, surpassing the impressive 8.4 percent achieved in 2003.

Table 5. Key Economic Indicators – Maldives

	<i>Pre-Tsunami</i>		<i>Post-Tsunami</i>
	2004	2005	2005
GDP Growth (percent)	9.0	7.5	0 to -5.0
Inflation (percent)	6.5	5.0	7.0 to 10.0
Fiscal Balance (% GDP)			
Revenues (% GDP)	35.2	40.4	43.6 to 45.9
o/w grants	0.8	0.8	4.1 to 6.6
Expenditures (% GDP)	37.8	44.5	47.6 to 49.1
o/w capital lending	0.0	0.0	0.0
Overall Balance, excl grants	-3.4	-4.9	-8.2 to -9.8
Current Account Balance (% GDP)	-12.0	-15.7	-33.3 to -28.4
Debt to GDP (percent, before any debt moratorium)	42.0	42.5	62.5 to 76.8

E. Africa

22. The two most affected countries in terms of physical damage in Africa were Somalia and the Seychelles. However, other countries not covered in this report—including Kenya, Madagascar, Mauritius, and Tanzania—suffered losses of life or minor infrastructure damage; World Bank assistance to these latter countries will take place in the context of ongoing activities.

23. **Somalia.** In Africa, the tsunami struck hardest on the northeastern coastline of Somalia. The tsunami was a further assault on already vulnerable populations as chronic droughts and floods had already affected many parts of Somalia over the last few years. An estimated 80,000 people live in the worst affected coastal districts.⁴ Following the disaster, both the United Nations (UN) and nongovernmental organizations (NGOs) initiated interagency assessment missions to the affected areas and have provided relief materials. However, it remains difficult to assess with precision the exact number of people affected. (According to the United Nations, an estimated 150 people have died, with an additional 54,000 people having been directly affected by the tsunami; however, other estimates are higher.) Significant infrastructure losses included housing, boats, wells, and water reservoirs. Unfortunately, the tsunami coincided with the height of the fishing season in Somalia, exacerbating the impact of the disaster. Further assessments are needed to determine the scope of the affected area and the extent of damage. It should be noted that the area's remoteness, the lack of reliable baseline data, and the limited presence of implementing partners and government counterparts prior to the disaster have hindered the assessment process and have created greater challenges in delivering assistance to the affected population. Delivering assistance to the needy is also a challenge because of poor communication and road infrastructure. Some of the affected areas are also inaccessible because of security concerns.

24. **Seychelles.** The Seychelles archipelago, which lies more than 7,000 kilometers from the epicenter of the undersea earthquake, suffered severe flooding and widespread damage to roads, fishing infrastructure, and tourism resources. Three people have been reported dead and at least four others were hospitalized. Two bridges on the road linking the airport to the capital were damaged and a main bridge was destroyed. The repair and rehabilitation of the damaged road network and bridges is estimated by the authorities at US\$6.4 million. The estimated loss in fishing infrastructure is US\$6.8 million. The preliminary cost of estimated damage to tourism infrastructure is US\$15 million, some of which is covered by insurance, but bookings are also down, contributing to an unknown further loss in GDP. The aggregate damage from the tsunami and heavy rains subsequent to the tsunami is currently estimated by the Government of Seychelles at US\$30 million, about 4 percent of Seychelles' GDP. The Government fears that the impact of the disaster on this small island economy with a population of approximately 80,000 will be significant. Within the overall government estimate, a United Nations Disaster Assessment and Coordination team puts the immediate needs as US\$8.9 million.

III. BANK RESPONSE

25. In all cases, the World Bank has worked with affected governments and other partners to provide quick support. Country staff were the first to respond on the part of the Bank within hours of the disaster, notably in Indonesia and Sri Lanka. Existing operations sometimes provided needed equipment and financing to support the first recovery efforts. Staff quickly stepped in as needed to help governments start the damage and needs assessment processes in three countries. Washington staff mobilized in support, some working here in Washington, D.C., and others going to the affected countries. Within five days, the outlines of Bank

⁴ The estimate is based on the 2004 WHO vaccination data.

support—fleshed out below—were in place and were presented orally to Executive Directors. Mr. Wolfensohn attended the ASEAN summit on the disaster and visited the most affected areas in three countries—Indonesia, Maldives, and Sri Lanka—reiterating the availability of Bank support; on his return, he reported to Executive Directors on these visits. As outlined below, Governments have also asked the World Bank to take a lead role in coordination of reconstruction efforts.

A. Common Issues

26. *Working with Authorities.* One of the tenets of Bank support is that governments should have the central role in and ownership of rehabilitation and reconstruction efforts. In these efforts, it is also important that communities are involved in assessing their needs and in designing recovery programs that both meet their needs and fit into longer-term growth and poverty reduction plans. The recovery efforts provide an opportunity to improve the lives of the poor—a theme that is emphasized by the authorities of the affected countries. Working closely with the authorities calls for major efforts in donor coordination—another theme repeated in every country context below.

27. *Rapid Assessments of Damage and Financing Needs.* As noted above, the World Bank and other donors responded immediately to government requests for support with damage and needs assessments in Indonesia, Maldives, and Sri Lanka. All of these assessments have reached a stage at which they can support the initial round of rehabilitation and reconstruction activities. In India, where the authorities handled relief efforts locally, the request for support for a needs assessment came later, as noted below, and the assessment will start on February 1, 2005.

28. *Overview of the Bank's Role.* The section below outlines the Bank's role in supporting the most affected countries. While the Bank's role differs depending on country needs and the priorities countries see for Bank assistance, some themes are repeated in each case. These themes include a central role in helping governments with donor coordination, use of Bank expertise in needs assessments and recovery planning, and rapid financial support for key recovery activities.

B. Indonesia

29. The Indonesian Government has provided the leadership in the aftermath of the disaster, both on relief and recovery efforts. It has effectively drawn on support from the World Bank and other donors. The Government is working with UN agencies on relief efforts and it has asked international financial institutions, notably the World Bank and the Asian Development Bank (AsDB), to lead coordination efforts in the recovery phase.

30. *Government Leadership.* The Government of Indonesia (GOI), which had been in office for just over two months at the time of the disaster, has responded firmly and comprehensively in handling the aftermath of the tragedy. With its development partners, GOI is engaged in the formulation and implementation of a three-stage action plan: emergency measures (December 2004-January 2005), rehabilitation measures (February 2005-February 2007), and reconstruction measures (February 2005-2009). The coordination

of emergency relief resources is being managed through the GOI's disaster coordination agency—the BAKORNAS secretariat set up in the Coordinating Ministry for Social Affairs—while the national planning agency—Bappenas—has been tasked with assessing the extent of damages and losses, and with developing a responsive recovery strategy. For the implementation of the recovery work, GOI is considering putting in place a dedicated agency to undertake the coordinated execution of the rehabilitation and reconstruction activities.

31. **ASEAN Summit.** On January 6, 2005, the Government convened an ASEAN Summit on the Aftermath of the Earthquake and Tsunami; the need for government leadership of the post-disaster efforts and donor coordination were emphasized by GOI. In addition to high-level representatives from the affected countries and ASEAN members, several bilateral partners and top management from the UN, World Bank, and IMF attended the summit.

32. **Planning for Recovery.** GOI has been working with the World Bank and others on three key outputs: (a) a damage and loss assessment; (b) a GOI reconstruction and recovery strategy; and (c) a recovery financing, management, and fiduciary/governance strategy and framework. The damage and loss assessment report, prepared within a two-week period, was presented at the in-country Consultative Group Indonesia (CGI) meetings of January 19-20, which for the first time were chaired by GOI. The second output is expected to be finalized by end-March 2005, and will provide the overarching framework for recovery and reconstruction in the affected areas. Finally, work on the definition of the financing, governance, and fiduciary framework for the implementation of the recovery strategy has started. Refined unit cost estimates relating to the damage and loss assessment will provide the basis for this work. The Bank is supporting GOI efforts to develop a better sense of voluntary and official flows, and on how these may be managed (including on/off-budget share of financial transfers). To manage the recovery effort, the Government has set out some general principles:

- Maximize the use of on-budget financing.
- Develop an effective governance framework.
- Phase out central government support as regional governments recover capacity.
- Maximize grant financing, then soft loans as needed depending on fiscal and balance of payment needs.

The GOI has also requested a coordinated response from donor partners.

33. **Donor Coordination.** The joint work on the post-disaster assessments has been an intensely collaborative effort, under the guidance of Bappenas and in close consultation with GOI line agencies, and with camaraderie among all participants. GOI has clearly articulated the different roles expected of the UN (relief and initial rehabilitation stage) and international financial institutions, notably the World Bank and AsDB, (rehabilitation and reconstruction stages) in supporting them on the Aceh disaster, along with other partners. The just-concluded CGI offered a forum for further stimulating discussions on donor cooperation and coordination.⁵ In view of the fact that coordinating reconstruction resources from the

⁵ At the CGI, the total amount pledged for Indonesia for 2005 was US\$5.1 billion. Disbursement through the Government's budget in 2005 is put at US\$3.5 billion, with disbursements through other channels of US\$1.6

international community is likely to challenge the government, the Bank is proactively reaching out and coordinating closely with multi/bilateral partners to provide joint teams and common approaches to minimize the burden on the government. The Bank's IDA-IBRD program in Indonesia is greatly enhanced by our capacity to leverage significant additional grant funds from a range of bilateral partners. More specifically, the World Bank team is engaged in discussions with AsDB and the Japan Bank for International Cooperation (JBIC) to realign our existing and new support, and is exploring with other key donors their interest in co-financing.

34. *World Bank Response.* From the outset, the World Bank team has been integral to GOI's post-disaster efforts and has provided substantive support, including in the preparation of the damage and loss assessment and the sectoral/cross-cutting reconstruction notes.⁶ In the wake of the disaster, the World Bank rapidly mobilized a multisectoral team, including world-class experts on disaster assessments. The World Bank was part of a core team, based in a joint response office in Bappenas, and has been working around the clock with Government counterparts and partners, including the UN agencies, AsDB, and JBIC, on coordinating and preparing for the initial recovery efforts. In addition, the World Bank team has been playing a major, proactive role in providing technical advice to GOI on the overall governance and fiduciary framework to ensure transparent, accountable, and effective use of aid flows. Following up on the offer from the World Bank President to provide Indonesia with every possible assistance, on January 6, 2005, GOI and the World Bank signed an Memorandum of Understanding, which outlines the basis for collaboration and joint activities in financing reconstruction of Aceh and North Sumatra.

35. *Possible Forms of Support.* The World Bank is ready to support the rehabilitation and reconstruction phases through efforts aimed at the restoration of core services, followed by support for the longer-term objective of rebuilding and reconstructing the region. There are three strands to the Bank's response with regard to the restoration and rebuilding efforts: (a) critical social, physical, and financial infrastructure; (b) public services and institutional capabilities; and (c) productive services and livelihoods of the affected populace. In terms of our operational support, the following options are under discussion with the Government, to be further refined following a definition of the financing requirements in the coming days:

- Reallocation of savings from existing projects (primarily IDA credits).
- Refocusing projects in the pipeline to include Aceh reconstruction components (IDA credit; grant co-financing from other donors).
- A new intervention through a program-based operation (IDA credit and other financing).
- A new Multi-Donor Trust Fund (MDTF) seeded by a World Bank grant.

billion. Of the total pledges, US\$3.4 billion is for financing regular operations in support of Indonesia's broader development and poverty reduction objectives and an estimated US\$1.7 billion is for Aceh. Of the estimated pledges for Aceh, US\$1.2 billions is grant funding and US\$0.5 billion is highly concessionary loans.

⁶ The assessment work commenced after a January 4 request by Bappenas for the World Bank to join forces with GOI and other partners to undertake such an assessment in time for the CGI.

In terms of additional/new support, both options—a programmatic operation and an MDTF—are under discussion for coordinating and managing additional donor funds, including IDA credits and World Bank grant resources. Both modalities provide for strong country ownership, GOI leadership, and a coordinated donor response that is consistent with the national recovery and reconstruction strategy. The financial and administrative arrangements as well as the operational, results, fiduciary, and broader governance frameworks, relating to the two modalities are under discussion with the Government and key development partners.

36. *Level of Financial Support.* The World Bank is ready to deploy resources amounting to about US\$300 million, including a World Bank grant and concessional IDA financing. The Government of Indonesia has clearly expressed its preference for on-budget, grant funding, over other financing options in support of the recovery efforts. In this regard, it is noteworthy that the Bank has been playing a key role in proactively reaching out and engaging with other donors to mobilize coordinated approaches to grant financing. Initial discussions with key donors are very promising; several partners are reviewing the use of the vehicles offered by the World Bank (for example, projects under preparation, MDTF, or a program-based operation) for effectively channeling their own resources. However, the Bank stands ready to help mobilize additional funding support on the basis of the requirements of the agreed reconstruction plan. The World Bank expects to commit a total of US\$246 million in 2005.⁷ In terms of timing, a total of some US\$125 million disbursements envisaged for Aceh in 2005 were pledged by the World Bank during the CGI. An additional US\$120 million is envisaged to be disbursed toward recovery efforts in 2006. Further resources in FY06 (notionally put at US\$55 million) may be deployed to meet requirements, including through co-financing.

C. Sri Lanka

37. The Sri Lankan Government has taken the lead in organizing for both the relief and recovery phases of its response. Donors, including IDA, have come forward in support of the authorities, notably in the context of damage assessments.

38. *Government Leadership.* In the immediate aftermath of the disaster, a Center for National Operations was formed under the President's Secretariat to oversee and monitor emergency programs. Three task forces composed of representatives of the public and private sectors were also formed under the President's Secretariat. With regard to the recovery and reconstruction efforts, the Task Force to Rebuild the Nation (TAFREN), which is closely linked to the Ministry of Finance, was assigned the responsibility of assessing the damage, developing and implementing a Comprehensive Development and Infrastructure Action Plan (CDIRAP), coordinating all donor assistance toward achieving the plan, and drafting legislation to set up the Authority for Rebuilding the Nation (ARN). The Government damage assessment was published on January 5, 2005. Consultations for the formulation of the CDIRAP and drafting the bill for setting up the ARN are ongoing.

39. *Donor Coordination and Needs Assessment.* The larger donor groups for Sri Lanka—led by the World Bank and AsDB—have met numerous times since the disaster, and all are

⁷ This includes US\$76 million in savings/reallocations from the current portfolio.

committed to having a coordinated response through a standard working group. Under the overall guidance of the Ministry of Finance, the World Bank, AsDB, and Japan have been working closely together in recent weeks to coordinate external support for the next phases of the response to the disaster. To carry out the initial damage and needs assessment, a joint mission of the three institutions began on January 10, 2005. This effort is being assisted by other development partners (including from UN agencies and bilaterals) and civil society. The draft damage and needs assessment was jointly released on February 2 and made available on the websites of the three institutions. During February, a process of donor consultations will take place to ensure that financing needs are met for the coming months, followed up in late April/early May by a formal meeting of the Sri Lanka Development Forum. During that meeting, the needs assessment will be discussed in the context of the revised poverty reduction strategy (PRS). Nevertheless, despite the positive intentions expressed by all, donor coordination will remain a challenge given the tremendous needs and outpouring of assistance. (A mechanism will be established to continue refining the needs assessment over the coming months.)

40. **Priority Needs.** One of the urgent priorities is to restore the livelihoods of those affected by the tsunami. The required livelihood support is likely to be in the form of cash grants to the most vulnerable groups and special support to assist small and medium enterprises and fishermen rebuild their businesses. With approximately 145,000 houses fully or partially destroyed, helping individuals and communities to rebuild housing will be another short-term priority. Other priorities are in education and health, specifically helping to rebuild system losses, including physical infrastructure. It is anticipated that the bulk of the World Bank's financing will be focused in these four priority areas—livelihood support, housing, education, and health. Other priorities include restoration of roads and railway tracks, low and medium voltage power lines, water distribution networks, wells, and sanitation facilities, and rehabilitation of the severely affected fisheries sector through reconstruction of fishing harbors and provision of fishing gear. (See Table 6.)

Table 6. Sri Lanka—Short-Term Financing Reconstruction and Rehabilitation Needs (US\$, millions)

Housing	50
Education	13
Health	17
Agriculture	2 ^a
Fisheries	69 ^a
Tourism	130 ^a
Environment	6
Roads	25
Railways	40
Power	27
Water Supply / Sanitation	64
Social Welfare	30 ^b
Other items, including contingency ^c	30
Total	568-78
O/w financed through Bank support:	175

^a Includes estimates from livelihoods damage assessment of fishermen, small farmers, and small businesses in tourism.

^b Targeted assistance to vulnerable groups.

^c “Other items” includes private assets that were destroyed along with the devastated houses, and the destruction to other public sector buildings, etc.

41. IDA Support. In the initial days after the disaster, the World Bank received several appeals from Government counterparts and was able to respond to many, including providing resources to secure medicine, water pumps, earth-moving equipment, and water storage tanks. With regard to the recovery efforts, the Bank’s initial response—a summary of which was distributed to the Board on February 2, 2005—will be in the form of a portfolio restructuring. This will involve flexible use of ongoing nationwide projects that can be used for the immediate needs (such as health and community water projects) and reallocation of resources from the remainder of the existing portfolio, focusing on those projects with uncommitted funds and large undisbursed balances. Up to US\$75 million may be made available quickly through these sources. At this point, it is unclear to what extent these resources will be drawn upon, given the overwhelming pledges of grant funding from other sources. Nevertheless, this response will be important toward ensuring that a large volume of resources is made available as early as possible. Waiting to see if other donor funding is available is out of the question. The next stage of the Bank’s response will involve an Emergency Reconstruction Credit and Grant in the amount of US\$75 million, of which 40 percent will be a grant. The team plans to present this to the Board in late February. In the third stage, in the context of updating the PRS and Country Assistance Strategy (CAS), a tsunami reconstruction element will be incorporated into the country program, with the expectation that a fairly large reconstruction credit (up to US\$250 million) would be provided in late 2005.

42. Implementation Arrangements. Implementation mechanisms and arrangements for the reconstruction process are still being worked out. These arrangements are especially sensitive given Sri Lanka’s history—notably the conflict in the North-East and various youth insurrections in the South. Therefore, it will be extremely important to ensure equity among the regions and ethnic groups in any donor-financed program. Furthermore, the donor response to this crisis must also be made in the context of a more inclusive and decentralized decisionmaking process that would better serve the development needs of the poor and most vulnerable groups. Initially, funds made available from the Bank will likely be channeled through the Ministry of Finance to the two provincial councils (the North-East Provincial Council and the Southern Provincial Council) and then made available to the eight affected districts. In establishing these arrangements, it will be ensured that proper management and fiduciary arrangements are in place at both the provincial and district levels. The North-East Provincial Council has an excellent track record in successfully and quickly implementing a number of Bank projects.

43. Donor Funding Mechanisms. Given the political sensitivities—especially potentially with regards to the allocation of funds between the North-East and South—and the large amount of funding potentially available from many different sources, various mechanisms for channeling donor assistance are still being explored. There is a strong possibility that multi-donor trust funds will be established, separately for the North-East and the South, or a single fund for the country as a whole. However, at this time, it is difficult to say what will result from the ongoing discussions between the authorities and donors.

44. **Staffing.** The Bank's Colombo office is extremely strong and well equipped to handle this challenge, of course with help as needed from Washington-based staff. In the near future, no major changes are anticipated with regard to the Bank's local presence.

D. India

45. **Government Leadership.** Immediately following the tsunami, the Indian Government mobilized major resources for urgent relief in the affected areas in India (particularly Tamil Nadu and the Andaman and Nicobar Islands), and also provided support to Sri Lanka, Maldives, and Indonesia. The Government also announced that it was not seeking any outside help with immediate relief. A cabinet committee under the chairmanship of the Prime Minister was immediately established to oversee relief and rehabilitation, and the Disaster Crisis Management Committee, chaired by the Cabinet Secretary, was activated. Overall, it appears that the Government has been highly effective in immediate relief and recovery, including disposal of bodies, disinfection, vaccination, provision of food, water, and emergency shelter, and sanitation and clearing of debris. There has been major support from Indian NGOs, and significant funding has been raised from the public, especially through an appeal launched by the Prime Minister. UN agencies on the ground, notably UNICEF, and locally represented international NGOs have also helped with relief efforts.

46. **Request for Rehabilitation and Reconstruction Support.** On January 10, the Government of India wrote to the World Bank and to AsDB asking for support for rebuilding infrastructure, both public and private, for the rehabilitation of livelihoods of those affected, and in developing disaster prevention and management systems for the future. An identical request was addressed to the UN (under the coordination of UNDP) on January 12, 2005. The World Bank, AsDB, and UNDP are now preparing for a needs assessment jointly with the Government of India, starting on February 1. The needs assessment is scheduled to be completed by February 15, following which the Bank, AsDB, and UNDP would discuss financing shares and arrangements with the Government. The Government of India has asked multilaterals to explore mobilizing funding from bilaterals on a grant basis, to be channeled through multilateral agencies, probably through trust fund arrangements.

47. **Priority Needs.** Since the needs assessment has not yet been conducted, there are as yet no definitive estimates of reconstruction costs. It is clear that, in addition to repair of infrastructure, priority needs will be for housing; for restoration of assets to generate livelihoods, notably for fishermen but also for farmers; and for coastal protection investments and disaster preparedness. On January 19, the Government of India announced allocations of about US\$600 million to the affected states and Union Territories (other than Andaman and Nicobar) for infrastructure, housing, and fisherman asset replacement.

48. **IDA Funding.** The Bank has completed an internal review of ongoing projects to assess the potential for redirecting funds to reconstruction needs. This review suggests that up US\$300 million from IDA could be available; these initial estimates have been sent to the Government with a request that they validate the figures, and begin to think about the modalities for a redirection, so that as soon as the needs assessment has been completed, work can begin on finalizing the structuring of overall Bank support (including discussion of

how much new IDA should be provided, beyond the amounts redirected). The Government has stated that it hopes that disbursements can begin before the end of March 2005.

E. Maldives

49. The Maldives Government moved quickly to react to the crisis. Other donors and the World Bank were also quick to provide assistance. The preliminary needs assessment, produced jointly by the World Bank, IFC, AsDB, IMF, and the UN, is in the hands of the authorities.

50. **Government Response.** The Government of Maldives quickly pulled together an effective relief and rehabilitation operation with support from UN agencies, NGOs, and other development partners. Humanitarian relief has reached all the displaced people. Critical emergency needs such as safe drinking water, food, and basic medicines are in place. People who lost their homes have been provided temporary shelters, either on their own or other host islands. The Ministry of Health has put in place an effective disease surveillance system to monitor water quality and report on a daily basis outbreaks of communicable diseases, especially diarrhea and unexplained fevers. The Ministry of Finance and Treasury is coordinating the donor assistance and has withheld the completion of the 2005 budget pending the availability of the full damage and needs assessment.

51. **Priority Needs and Financing.** Reconstruction expenditure is likely to be concentrated in housing, water and sanitation, tourism, and public buildings, with significant support needed to restore the fishing industry and to complete repairs and re-equip schools and medical facilities. Public financing of reconstruction is likely to be less than the cost of replacing assets and livelihoods, currently estimated in the range of US\$310 million-US\$510 million, because some of the cost will be absorbed by the private sector through insurance and drawing down financial assets, perhaps by as much as \$100 million. On the other hand, the loss of government revenue related to the temporary downturn in tourist arrivals would require financing of about US\$90 million during 2005. Low-lying Maldives is vulnerable to natural disasters and global climate change and the government is considering accelerating plans to voluntarily relocate inhabitants of vulnerable islands to safer islands, and to strengthen shelters and sea defenses around these focus islands. The sea walls around Male saved the capital from significant damage during the tsunami. More accurate information on the costs and financing of reconstruction will be available when the needs assessment is finalized during discussions with the government in early February. A donor consultative group meeting to firm-up financing is likely to be called in March.

52. **IDA Support.** The World Bank contacted the Government soon after the tsunami hit the Maldives to offer its assistance, and agreed to allow certain expenditures under the ongoing education credit to meet urgent needs. At the request of the Government, a mission was rapidly fielded to carry out a joint assessment of the damage and needs related to the tsunami. In addition to the World Bank Group and AsDB, UN agencies, and JBIC joined the team, and a Fund mission arrived to the country a few days later. As noted above, the preliminary report has been submitted to the Government. Immediate IDA support will be provided by a restructuring of US\$12 million of IDA commitments and an additional US\$2 million in new commitments; 40 percent of these resources would be provided on grant terms. An

application will be made to the Japan Social Development Fund (JSDF) for US\$2 million of additional support. Further emergency support from IDA is likely in FY06.

53. *Staffing.* The World Bank does not have an office in the Maldives. During Mr. Wolfensohn's visit, the Bank agreed to set up a temporary liaison office. A search is under way to select the Bank's Special Representative, who would manage this office. It would be run jointly with AsDB.

F. Africa

54. The lack of active programs in either Somalia or the Seychelles means that, while the World Bank is an active partner, other donors are taking the lead.

55. *Somalia.* Somalia is currently in the process of re-establishing a government. A Parliament has been established and it elected Abdullahi Yusuf as president in October 2004. A Cabinet was appointed on January 13, 2005, and the Government has noted that one of its first actions will be to visit the tsunami-affected areas. Responding to the tsunami will continue to be one of the first concerns of the Government; but given that its response capacity will be extremely low in the initial stages, it will continue to rely heavily on the international community for assistance. The Bank is an active member of the tsunami task force—comprising government counterparts, UN agencies, donors, and NGOs—that was established following the disaster. It has also been consulting bilaterally with the UN and other donors and key partners to ensure a more comprehensive overview of the situation and of the response. Since the Bank does not have any operational capacity in Somalia, it is relying on the task force for regular updates on the field situation. The Bank plans to use a grant from the JSDF to provide support to Somalia's recovery efforts.

56. *Somalia Needs Assessments.* A joint UN/NGO Flash Appeal on Somalia was launched on January 6, 2005, for approximately US\$10 million to assist the estimated 54,000 affected Somalis. The support in the Flash Appeal targets food, shelter, water and sanitation, health, agriculture, and coordination and support services. The UN notes that these are initial needs and may evolve as further assessments are undertaken. Emergency needs are currently being met by the Red Crescent, UNICEF, UNHCR, WFP, and Médecins sans frontières. An interagency joint mission to the tsunami-affected areas started worked on January 28 to assess more medium- to long-term needs. Bilateral donors have also offered support. Somalia is a LICUS country, where the Bank has a joint country re-engagement note with UNDP. The support being provided under this strategy focuses on the areas of macroeconomic data collection and monitoring; health and HIV/AIDS; livestock certification; and capacity building. With the establishment of the new government, the Bank is in the process of reviewing its current strategy to see how it can best scale up its support to address the emerging needs of the new authority, including responding to this disaster. The first joint meeting between the Transitional Federal Government and the international community was held on January 17, 2005, and the Prime Minister requested technical assistance in support of pressing priorities. In addition, it should be noted that preparations are under way for a larger needs assessment exercise for Somalia, in which the Bank will play a key role.

57. **Seychelles.** The Bank has expressed willingness to help Seychelles with the post-tsunami recovery measures. Given Seychelles' non-accrual status, and Bank policy not to lend to countries in non-accrual status, the Bank is not in a position to undertake new lending. Bank staff have met twice with the authorities: with the President of Seychelles at the UN Small Island Developing States conference, in Mauritius; and with the Minister of Economic Planning, in Washington. The Bank has offered to help Seychelles through the organization of an international conference, if needed, and through a JSDF grant of up to US\$2 million. The JSDF grant would likely be used for recovery work in the fishing sector. The authorities expressed a need for technical assistance in re-evaluating Seychelles' disaster preparedness and response system. The Government has also requested technical assistance from the IMF to assess the economic impact of the tsunami. Other donors, both public and private, have offered financial support. In the aftermath of the tsunami, the President of Seychelles set up a National Emergency Foundation in partnership with the private sector to mobilize private contributions from international and domestic donors. The Government has tackled immediate needs following the tsunami and built temporary bridges.

G. IFC and MIGA Support

58. The private sector is playing an important role in immediate relief activities and is central to the restoration of livelihoods in affected areas. IFC and MIGA are supporting the private sector's response in ways that complement the Bank's response. Annex B provides an overview of the IFC response. Annex C outlines MIGA's role.

IV. OPERATIONAL ISSUES

A. Emergency Procedures

59. In general, World Bank policy and procedures should not be an impediment to the provision of timely assistance to tsunami-affected countries. Operational Policy (OP) 8.50, *Emergency Recovery Assistance*, sets the policy framework for the planned IDA tsunami recovery operations. The OP provides for expedited processing but notes that standard Bank operational policies apply. OP 4.01, *Environmental Assessment*, sets out a possible exception: when compliance with any requirement of the environmental assessment policy would prevent the effective and timely achievement of the objectives of an emergency recovery project, the Bank may exempt the project from such a requirement. The justification for any such exemption is recorded in the loan documents. There are no plans to seek exceptions to procurement policy; experience shows that most procurement of the kinds of goods and services needed for reconstruction can be done expeditiously in emergency situations. Lastly, IDA arrangements are in place so that cancelled undisbursed balances from IDA credits will remain available to the country in question for emergency assistance. More detail is provided immediately below with regard to procurement and safeguards.

60. **Procurement.** Expedited procurement procedures were envisioned in the context of the existing procurement guidelines. It is likely that the Bank will use a two-phased approach:

- An initial rehabilitation period of 6-12 months when the Bank would agree to most contracts being awarded on the basis of guidelines for direct contracting and

single-source selection, with all but the largest contracts being post reviewed, to shorten processing times.

- A medium-term reconstruction period, when most procurement could be done using more standard but simple procurement methods.

With regard to procurement plans for emergency credits or grants, Operations Policy and Country Services (OPCS) has provided staff with simplified templates and additional guidance. Procurement staff will also work with task teams on projects being restructured to avoid delays in the introduction of new procurement language in legal agreements. With regard to grants that might be administered by UN agencies, the Bank has agreed in the past to the use of UN procurement procedures whenever those procedures have been found to provide the basis for acceptable procurement. However, as individual UN agencies vary with regard to their procurement policies and procedures, a review of the written procedures would be undertaken and the grant agreement would explicitly state acceptance or any conditions.

61. *Safeguards.* In view of the massive and urgent needs of people in immediate peril, it is essential that emergency interventions be swiftly implemented. On a temporary basis the responsibility for decisionmaking in the application of Bank policies concerning environmental and social safeguard policy aspects of IDA-supported interventions has been transferred to qualified specialists in the country offices. This transfer has been possible because both the East Asia and Pacific and South Asia Regions have experienced and knowledgeable staff deployed to country offices. Washington-based staff are available to assist as needed. As longer-term activities are undertaken, safeguard management procedures under the auspices of OP 8.50 will be kept under review to ensure that they are implemented efficiently and swiftly, without creating bottlenecks.

62. *Prevention and Mitigation.* As is normal in emergency recovery support, IDA teams will assist recipient governments in examining issues concerning prevention and mitigation of future disasters. In supporting countries' reconstruction efforts, country teams will work with the authorities on alternatives for national disaster strategies and disaster prevention and management institutions, as well as on potential changes in construction techniques. Relocation of affected communities to safer ground to reduce vulnerability is a critical issue in the reconstruction process that will require resolution through dialogue between communities and governments. One of the key issues coming out of the tsunami is that of an early warning system. Other international agencies are taking the lead in this effort, but the World Bank is likely to have a role in supporting the design of the "last mile" of that system—the actual links to individual communities.

B. Administrative Budget and Staffing

63. Much of the additional costs related to the tsunami work will be met by reallocating staff and expenditures from other activities that are no longer of immediate priority in the affected areas. Nevertheless, an effort of the speed and scale being mounted by the Bank will incur some additional costs.

V. PROPOSED FINANCING ARRANGEMENTS

64. The magnitude of the disaster and its impact on multiple countries and conflict-affected regions presents special challenges for financing reconstruction and for aid coordination. Particular issues include:

- Ensuring strong country ownership of reconstruction and commitment to implementation.
- Making the transition from emergency relief to reconstruction seamless and efficient. It is desirable to launch reconstruction as early as possible to restore livelihoods and markets and to avoid long-term dependency on relief aid.
- Government coordination of the efforts of many donors—60 countries were represented at the UN Flash Appeal in Geneva, each potentially with its own financing, fiduciary, and monitoring and evaluation procedures.
- Channeling funds efficiently and transparently to a multiplicity of small and dispersed activities in four countries—facilities worst affected by the disaster were private housing, small business (including fishing and agriculture), schools, and clinics.
- Providing for an equitable distribution of reconstruction activities.
- Ensuring that funds are put to their intended use.

At least two countries are responding to these challenges by establishing special funds to receive donor finance, reduce transaction costs, and ensure transparency and accountability for the use of resources. These range from government-administered funds with special governance arrangements to proposals for more conventional multi-donor trust funds. In Maldives, a special fund is envisaged that could be administered by a committee consisting of both non-government and government representatives; use of funds would be audited by an international accounting firm. Such a fund would typically fund programs rather than discrete projects, and make use of established implementation systems through line ministries but with closer monitoring and accountability.

65. **Multi-Donor Trust Funds.** There is some donor country interest in multi-donor trust funds, possibly administered by the World Bank, with a managing committee consisting of representatives of multilateral organizations. The arrangement could include special fiduciary oversight through a monitoring agent reporting to the trust fund administrator. The Afghanistan Reconstruction Trust Fund has been cited as an example. As with government-administered special funds, a multi-donor trust fund would channel funds to priority reconstruction programs, reduce the transaction costs of processing donor funds, and simplify reporting. Some donors believe that multi-donor trust funds would provide a higher fiduciary standard and better assurances of equitable distribution of reconstruction resources. There is also a consensus that having a single, multi-country, multi-donor trust fund would be much more difficult to manage than separate country funds. Further discussions among governments, donors, multilateral partners, and the World Bank are needed to clarify mechanisms for channeling donor funds to government programs.

66. **Bank Financing.** For its part, the Bank would follow the leadership of the affected countries. The Bank is proposing to channel IDA funds through the government-

administered special funds in Maldives, and to finance reconstruction programs through conventional financing of public investment in Sri Lanka. In India, IDA funds might, at least in part, be channeled to support government programs on a sectorwide basis. In Indonesia, the Government is reviewing both a programmatic approach and an MDTF for channeling and managing additional donor funds, including IDA credits and World Bank grant resources. Discussions on portfolio restructuring and refocusing of pipeline projects are also under way. (See Table 7.)

Table 7. Proposed IDA/IBRD Support in 2005 (US\$, millions)

	<i>Indonesia</i>	<i>Maldives</i>	<i>Sri Lanka</i>
Restructured Credits	76.0	12.0 ^b	75.0 ^c
New Credits/Grants (IDA13)	145.0 ^a	2.0	75.0
(o/w percentage grants)		40.0	40.0
New Credits	t.b.d.	12.0 ^d	250.0 ^d
Other WB Grants	25.0		

^a Includes restructuring of 2005 pipeline projects, supplemental credit amount, and new lending.

^b Cancelled amount from existing credits.

^c Up to US\$75 million will be provided through a reallocation of the portfolio. However, given the overwhelming pledging of resources, it is anticipated that a substantial share of this may be provided on a grant basis by other donors.

^d Very preliminary estimate.

Note: t.b.d. = to be determined.

67. Aid Coordination. The World Bank was in contact with governments of affected countries and leading partners such as the UN and AsDB in the first days after the disaster and has maintained close contacts since. Needs assessment missions have been staffed jointly with AsDB and UN staff and have also included representatives of bilateral donors and other multilateral institutions. The Bank participated in the Special ASEAN Leaders' Meeting on the disaster in Jakarta and the UN Flash Appeal meeting in Geneva. Aid coordination during the reconstruction phase most likely will take place at the country level and be country led; the Indonesia Consultative Group meeting has already taken place. However, some donors may consider that a regional meeting is needed to launch the reconstruction process, define responsibilities and accountabilities, guide aid allocation across countries, as well as to firm up financing and fiduciary arrangements. While the World Bank sees most aid coordination taking place through the usual consultative group processes, it would be willing to help organize a regional meeting if called upon.

68. Paris Club Debt Relief. On January 13, 2005, Paris Club creditors announced a debt moratorium for countries impacted by the tsunami disaster. The countries included are India, Indonesia, Malaysia, Maldives, Myanmar, Seychelles, Somalia, Sri Lanka, and Thailand. These countries have the option to request a deferral of principal or principal and interest payments due to Paris Club creditors.

69. ***Special Arrangements.*** This debt moratorium is a specific measure designed to help address the problems caused by the tsunami disaster. It is outside the scope of the normal debt restructuring mechanisms and, for this reason, many of the standards rules do not apply. Notably, countries that ask for a deferral of their debt service payments within a prescribed timeframe need not conclude an agreement with the IMF. Nor will they be expected to seek comparable treatment (or deferral) from other creditors.

70. ***Proposed Consolidation Period.*** Creditors are open on the period during which debt service payments may be deferred, but it is expected to be in the range of six months to two years. Likewise the repayment period for deferred claims has not been specified, but it is expected to be relatively short (five years) and certainly well below the standard rescheduling terms accorded by the Paris Club. This is consistent with the fact that the debt moratorium is seen as a temporary “payment holiday” to help countries through the difficult post-disaster period and not as a mechanism for addressing more fundamental debt problems.

71. ***Debt Service Covered.*** The debt service that may be deferred is principal and interest on any official development assistance loan and principal and interest on loans previously rescheduled by the Paris Club. Excluded is debt service falling due on guaranteed export credits that have not been rescheduled, since deferring debt service on these credits effectively amounts to a call on the guarantee by the export credit agency, which could send a negative signal to the financial markets.

72. ***Treatment of Interest Payments.*** Creditors have different views on how treat interest payments falling due during the debt moratorium and this will be the subject of bilateral negotiation. Most expect to capitalize deferred interest payments as they come due but some creditors are prepared to forgive moratorium interest. However, in these cases the resulting loss to the creditor will be counted against the special aid commitments that have been announced in response to the tsunami disaster.

73. ***Bank Analytic and Advisory Support.*** Along with the IMF, World Bank staff are assisting affected countries in examining all financing options. Key issues include additionality of funding, the degree of concessionality, and the impact of rescheduling on the longer-term profile of debt service payments.

VI. NEXT STEPS

74. As the needs assessments are completed, IDA will finalize work on emergency reconstruction credits and grants for the most affected countries: India, Indonesia, Maldives, and Sri Lanka. The Bank will continue to work to support its partners in providing assistance in Seychelles and Somalia but will help them draw on available but relatively small-scale non-operational grant funds. During the preparation and implementation of IDA operations, the governments will update cost estimates for reconstruction. These operations are being scheduled for Board discussion, starting in February. The first to come are likely to be those involving restructuring of existing projects. The discussions of these operations will provide an opportunity for the Board to review reconstruction plans, their implementation, and the scale of IDA support. The latest cost estimates would be presented before the consultative

groups planned for India, Maldives, and Sri Lanka in the coming months. We expect to report back to the Board on the overall reconstruction program in about three months.

IFC SUPPORT FOR POST-TSUNAMI RELIEF AND RECOVERY

1. IFC is working closely with the World Bank, the Asian Development Bank (AsDB), and other donors to support private sector activities that contribute to relief and recovery.
2. **Short-Term Relief.** IFC Management has approved an allocation of US\$2.5 million from the IFC Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS) to support immediate post-tsunami relief efforts by the private sector in Indonesia, the Maldives, Sri Lanka, and Thailand through a matching grant program.⁸ Major constraints to the relief effort are bottlenecks in getting supplies and services to the affected areas. The program will be targeted at alleviating infrastructure and distribution bottlenecks for relief operations and providing emergency health services and clean water.
3. **Partnerships.** IFC will partner with selected private companies, including IFC client companies, to assist in the relief effort. A number of private companies in the region, including IFC clients, are using their resources to provide shelter, water, medical services, and communication and transportation facilities to assist affected communities. IFC will provide immediate support to clients who have resources on the ground, can respond rapidly to emergency needs, and can complement the normal channels of emergency aid funding. If it is determined that the needs on the ground are greater, IFC may consider an additional allocation at a later date and will seek formal Board approval in that case.
4. **Medium- and Long-Term Recovery.** Private sector activities—notably tourism and fisheries—play a key role in the livelihoods of affected communities. Beyond the tourism sector, most private enterprises are small or microenterprises. Private construction companies will play a key role in site clearance and reconstruction activities. There may also be a role for private or municipal finance in reconstructing infrastructure in affected areas. IFC has participated in World Bank missions to affected countries, and it has been in contact with clients and other companies operating in affected areas to assess the need for financing or technical assistance to support the recovery of these private sector activities.
5. **Financing.** IFC is considering financing facilities that will rapidly mobilize long-term debt financing for the recovery of the tourism operations in affected areas. This could help companies meet the cost of reconstruction and weather the downturn in tourism arrivals. IFC is exploring mechanisms to mobilize financing for small and medium enterprises (SMEs) and microenterprises in affected areas, working with local financial institutions. In the longer term, IFC may be able to finance housing through support for mortgage-lending institutions, and infrastructure reconstruction through project finance and/or support for local financial intermediaries. IFC is also exploring the scope to mobilize funding for affected municipalities through partial credit guarantees. In all of these, IFC will explore opportunities to leverage donor money through public-private partnerships and risk-sharing structures to increase the

⁸ A note to the Board regarding the FMTAAS allocation was circulated on January 6, 2005 (IFC/Sec M2005-0005).

impact of aid and improve implementation and long-term financial sustainability through the involvement of the private sector.

6. ***Technical Assistance (TA).*** IFC will accelerate the launch of a new multi-donor TA program for SME development in Sri Lanka and the Maldives, already under preparation (US\$2 million was committed by IFC in FY04). Building on successful models from the existing South Asia Enterprise Development Facility and other Project Development Facilities, this program will provide TA to financial institutions to support increased SME and microenterprise lending; and provide targeted TA to support recovery and growth of SMEs in the agribusiness, construction, fisheries, and tourism sub-sectors. It will also work to improve the business climate for investment in Sri Lanka and the Maldives, which will facilitate new investment by the private sector.

7. ***Support for SMEs.*** IFC is also considering extension of its SME TA activities in Indonesia, currently delivered through Program for Eastern Indonesia SME Assistance. There may also be specific TA initiatives to complement SME/microenterprise and tourism financing activities in Indonesia and Thailand.

MIGA ROLE IN POST-TSUNAMI RECOVERY

1. MIGA provides political risk insurance (PRI) for private foreign investment and technical assistance to facilitate such investment in its developing member countries. With regard to PRI, MIGA has traditionally primarily operated in response to requests from investors for cover on specific prospective deals. While MIGA stands ready to respond quickly and with a positive view to investment proposals related to post-tsunami recovery activities, it needs to be recognized that a purely passive posture will likely not lead to many deals being concluded.

2. MIGA is not a “first responder” at the time of crisis; instead, its product offering lends itself to a phased approach, focusing on technical assistance capabilities (both information dissemination and capacity building) in the near term, and utilizing more proactive approaches to providing PRI in the medium to long term.

A. Near-Term Actions

3. *Experience of Economic Development Agencies in Addressing Post-Disaster Recovery.* Economic development agencies in Florida, Texas, and other southern U.S. states and many other countries have extensive experience and recognized successes in rebuilding their infrastructure and economies in the wake of hurricanes and flooding. The experience of Florida in reestablishing its tourism infrastructure may be particularly instructive for investment promotion intermediaries (IPIs) and economic development agencies (EDAs) in hard-hits areas in Thailand and Sri Lanka. Likewise, investments in both the infrastructure sector and the fishing industry have been facilitated by EDAs, and may hold lessons for the tsunami-battered countries. Cooperation is planned to be explored in a teleconference between U.S. EDAs and their Asian IPI counterparts. Depending on the level of interest, this would potentially entail a workshop in Southeast Asia and follow-up capacity building and advisory work facilitated by MIGA.

4. *Online Services Provide Reconstruction Information.* As the post-tsunami reconstruction effort takes shape, MIGA will utilize its online investor information services to inform the international business community about the individual country reconstruction programs and the resulting investment and private-public partnership opportunities. This will initially take the form of a special section within the Investment Promotion Network (IPAnet) web portal, which will provide an overview of each country’s reconstruction program and links to further information available from the World Bank Group, government online sources, and private sector information services. MIGA will strengthen its institutional cooperation with the IPIs and relevant ministries in the host countries to obtain timely updates on new reconstruction initiatives and the resulting investment and business opportunities. The main sector focus will be on infrastructure and tourism, although this may be expanded in specific countries to reinforce the targeting strategy of the IPIs.

5. **Guarantees.** MIGA will consider providing PRI cover for affected commercial investments, but with a more proactive campaign to ensure investors are aware of what MIGA can provide. To better serve the affected countries, MIGA will ensure that appropriate resources are made available to actively promote PRI services to key potential investors, and provide expedited service to deals that arise. MIGA will work closely with the World Bank and IFC country offices to ensure that, to the extent possible, perceived risks do not inhibit the foreign private sector from playing a role in the reconstruction process (for example, housing, industrial parks, ports, marinas, hospitals, schools, tourism, infrastructure). MIGA would play a facilitating role, when necessary, in these business ventures.

B. Medium-Term Actions

6. **Develop Locally-based Information Channels.** MIGA plans to work with the Bank/IFC infrastructure (and relevant Regional) units and the relevant ministries in the affected countries to help develop effective locally operated information dissemination channels (for example, infrastructure web portals) that can take advantage of MIGA's online services (for example, IPAnet, PrivatizationLink, and FDI Xchange) to reach potential investors and suppliers. Given the scale and immediacy of the reconstruction needs, it will be essential to rapidly disseminate project information to the business community and to link these efforts to available support resources (for example, project development funding). Similar initiatives may be considered in other sectors depending on client demand.

7. **Establish Investment Guarantee Facility for the Region.** In Indonesia and Sri Lanka, the areas devastated by the tsunami are also in or near regions that have been suffering from long-standing civil conflicts. The Government of Sri Lanka has informed MIGA that it is interested in an investment guarantee facility that is similar to that being established by MIGA in Afghanistan, with World Bank and other support. The World Bank has asked MIGA to prepare the outline for a project proposal that the Country Director would discuss with government officials. MIGA could look at the possibility of including Indonesia in such an effort and build a project along the lines of the Afghanistan operation, that would, in addition to MIGA's regular guarantees, also include the possibility of providing local guarantees and coverage for "loans without equity" in support of privately financed import transactions (for example, health, agricultural equipment, etc.).

C. Longer-Term Outlook

8. The activities that MIGA could support through the provision of PRI would clearly need to complement the far broader and more extensive recovery activities under way or planned. In certain of the countries affected by the earthquake and tsunami, and for certain types of investments, the PRI MIGA provides might play a useful role. It should be noted that prior to the tsunami, there was little demand from investors to purchase insurance from MIGA in the affected countries: in the case of Thailand, MIGA has not insured any investments in the past because the perception of political risk is low; in India, the government has been reluctant to issue Host Country Approvals; in Indonesia, most of the demand has been for long-term infrastructure projects, and in particular power projects because of the involvement of the national electricity company; and in Sri Lanka, MIGA has seen little demand for guarantees

because of the continued perception among potential clients of uncertainties in the political climate.

9. However, MIGA is presently developing its policy with regard to the structure and nature of involvement in public-private partnership (PPP) arrangements, and the post-tsunami rebuilding may provide a particularly receptive proving ground for these efforts. Much of the reconstruction of public assets, such as of roads and bridges, will be carried out through procurement from private contractors. Given the level of aid pledged already (over US\$5 billion), much of this will be paid for from concessional sources, with the aid agencies monitoring procurement and ensuring payment. However, given the scale of what needs to be done, it is possible that for certain reconstruction needs, concessional funding will not suffice. A significant portion may still need to be funded by the respective governments. This may strain public finances, and for certain investments it may be appropriate to utilize private financing through a PPP structure. Investors and lenders, to the extent that local companies do not undertake these works, may be concerned about government payment risk, and will seek to insure their investments against that particular risk. This is certainly an area where MIGA could play a significant role.